

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00
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C O N F I D E N T I A L AMMAN 8709

E.O. 11652: GDS
TAGS: EFIN, ECON, JO
SUBJECT: GOJ PRICE AND SUPPLY CONTROLS

REF A) AMMAN A-35 (NOTAL), B) AMMAN A-64 (NOTAL)

BEGIN UNCLASSIFIED

SUMMARY --

1. ON NOVEMBER 12, GOJ MINISTER OF SUPPLY HELD PRESS
CONFERENCE IN WHICH HE DISCUSSED SEVERAL MEASURES BEING
TAKEN TO CONTROL PRICES AND SUPPLIES IN JORDAN.
FINANCIALLY, MOST IMPORTANT INCLUDE TERMINATION OF SUBSIDY
ON SUGAR, WHICH HAS COST GOJ ALMOST \$30 MILLION SINCE 1974
AND INCREASE IN RETAIL GASOLINE PRICES, WHICH IS EXPECTED
TO BRING APPROXIMATELY \$12 MILLION INCREASE IN REVENUES TO
GOJ NEXT YEAR. MEASURES DISCUSSED BY MINISTER ARE AD HOC
IN NATURE, AND BASIC PROBLEM OF INFLATION STILL NOT
SYSTEMATICALLY ADDRESSED. END SUMMARY.

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2. GOJ SUBSIDY ON SUGAR, WHILE NOT CONSTANT OVER PAST
SEVERAL YEARS HAS BEEN MOST COMMON OF SUBSIDIES EXCEPT FOR
THOSE ON WHEAT AND GASOLINE, BOTH OF WHICH APPEAR PERMANENT.
SINCE 1974, ACCORDING TO MINISTER OF SUPPLY, SUGAR SUBSIDY
HAS COST GOJ TOTAL OF AOMOST \$30 MILLION. DURING PERIODS
OF SUBSIDY, GOJ HAS PURCHASED SUGAR ON INTERNATIONAL

MARKET THROUGH LOCAL AGENTS AND RESOLD IT AT ABOUT \$0.50 PER KILO. RECENTLY THAT PRICE HAS REPRESENTED SUBSIDY OF 40 PERCENT. MOST RECENT GOVERNMENT PURCHASE, HOWEVER, WAS AT \$360 PER TON AND WILL BE RESOLD AT COST. TEMPORARILY, AT LEAST, GOJ BUDGET (WHICH HAS \$27 MILLION ALLOCATION FOR TOTAL SUBSIDY PROGRAM) IN 1977 HAS BEEN RELIEVED OF BURDEN OF THIS SUBSIDY. WE BELIEVE, HOWEVER, THAT ELIMINATION DOES NOT REPRESENT ANY CHANGE OF PRINCIPLE REGARDING GOVERNMENT SUBSIDIES, BUT SIMPLY REACTION TO CHANGE IN INTERNATIONAL PRICE OF SUGAR. CURIOUSLY, NEW PRICE OF SUGAR STILL PROHIBITS PRIVATE SECTOR FROM IMPORTING SUGAR, IN THIS ESSENTIALLY FREE ENTERPRISE ECONOMY.

3. EFFECTIVE NOVEMBER 11 , RETAIL PRICE OF REGULAR GASOLINE WAS INCREASED BY 20 PERCENT AND THAT OF PREMIUM BY 26 PERCENT. BRINGING PRICES TO ABOUT \$0.90 AND \$1.14 PER GALLON, RESPECTIVELY. INCREASE IN TOTAL REVENUE IN 1978 SHOULD BE ABOUT \$12-13 MILLION, \$3 MILLION OR SO OF WHICH WILL PROBABLY BE ALLOCATED TO REFINERY COMPANY AND REMAINDER TO GOVERNMENT. ACCORDING TO MINISTER, GOJ GASOLINE SUBSIDY IN 1977 HAD BEEN RUNNING AT ANNUAL RATE OF SOME \$55 MILLION PRIOR TO PRICE INCREASES.

4. OTHER ITEMS MENTIONED IN MINISTER'S PRESS CONFERENCE INCLUDE: PRESENT CONSTRUCTION OF STORAGE FACILITIES FOR
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TOTAL OF 100,000 TONS OF WHEAT, SOON TO BE IMPLEMENTED PLANS FOR CONSTRUCTION REFRIGERATED MEAT STORAGE, MORE DISTANT PLANS TO BUILD GOVERNMENT OWNED FLOUR MILL WITH 200 TON DAILY CAPACITY, PLANS TO ESTABLISH PRICE STRUCTURE FOR RESTAURANT AND HOTEL MEALS WITHIN NEAR FUTURE, AND IMMINENT OPENING OF TWO ADDITIONAL BRANCH STORES OF THE "CIVIL SERVANTS CONSUMER CORPORATION" (REF B) IN AMMAN AND IRBID. IN REFERENCE TO CONTINUING SPIRAL IN PRICES FOR FRESH FRUITS AND VEGETABLES, MINISTER CONCEDED THAT PROBLEM WAS DIFFICULT AND THAT TOTAL BAN ON EXPORTS OF THESE COMMODITIES SINCE AUGUST (AND ONLY PARTIALLY LIFTED RECENTLY) HAD WORKED HARDSHIP ON JORDAN'S FARMERS WHILE PRICES TO CONSUMERS CONTINUED TO RISE.
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5. COMMENT -- WHILE ACTIONS OF MINISTRY OF SUPPLY ARE ALL CONSISTENT WITH OFTEN STATED INTENTION "TO INSURE ADEQUATE SUPPLIES AT REASONABLE PRICES", THEY REMAIN AD HOC MEASURES WITHOUT UNDERLYING POLICY FRAMEWORK. BAN ON EXPORTS OF FRUITS AND VEGETABLES FOR PAST SEVERAL MONTHS WILL INCREASE 1977

TRADE DEFICIT AND AT TIME HAS ANGERED LOCAL FARMERS AND
FAILED TO RELIEVE CONSUMERS IN ANY NOTICABLE WAY. ADMIN-
ISTERED RETAIL PRICES OF THESE COMMODITIES CONTINUE AS DO
WEEKLY PRESS ACCOUNTS OF RETAILERS IN LARGE NUMBER BEING
FINED AND/OR JAILED FOR VIOLATIONS. FINANCIALLY, MOST
TROUBLING ASPECT OF NEW MEASURES IS THAT ACCORDING TO OUR
MOST RECENT INFORMATION, SAUDIS HAVE NOT YET AGREED TO
CONTINUE IN 1978 THEIR 1976 AND 1977 ANNUAL \$40 MILLION
CASH GRANTS TO SUBSIDIZE FUEL CONSUMPTION IN JORDAN.
USING GOJ FIGURES FOR RATE OF ANNUAL INCREASES IN DOMESTIC
GASOLINE CONSUMPTION, AND ASSUMING NO INCREASE IN COSTS
OF PRODUCTION, IT APPEARS THAT EVEN WITH SAUDI GRANT OF
\$40 MILLION IN 1978, AT NEW RETAIL GASOLINE PRICES GOJ
WILL HAVE TO PROVIDE SUBSIDY OF SEVERAL MILLION DOLLARS
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IN 1978. END CONFIDENTIAL.

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